

# Executive Office on Aging

## Project 2011: The Case for Small Business Incubators

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## Overview

The aging of the baby boomers, who constitute approximately a third of our nation's population, will have profound social, political, and economic impacts on society. Hawai'i, being the third fastest aging state, certainly has its work cut out. We must begin to plan for the "aging revolution" by anticipating the changing needs of Hawaii's older adults and by developing new programs and services to ensure that they can maintain a high quality of life. In order to do that, we need a vibrant economy that can provide adequate resources to care for an aging population as well as meet the numerous diverse needs within our community.

How are we to balance the competing needs and scarce resources within our state? We need to develop innovative programs which maximize benefits to our community while ensuring that those most in need are adequately provided for. We need to develop new businesses and industries that produce services and goods that are in demand. We need to create high quality jobs so talented people choose to remain in Hawai'i rather than emigrate from the State. We need to create an attractive business climate so that new industries can be developed and implemented in Hawai'i. We need to build on our strengths while encouraging innovation, new product development, and economic expansion.

While the context in Hawai'i is different from the mainland, many issues and concerns regarding our aging population and economy are universal. How can we grow new businesses to replace traditional ones that have declined? How can we strengthen key industries that have strong potential for growth in Hawai'i? How can we simultaneously ensure that increasing needs of our aging population are met while planning for new growth and development? This paper will address some of these questions and provide background information for continued development of

these topics. We propose the creation of a small business incubator focusing on goods and services produced in Hawai'i.

## The Case for Business Incubators

A business incubator is an entity that serves as a host, and provides space and services, to entrepreneurial start-up companies. It is called an "incubator" because its primary function is to assist budding entrepreneurs "hatch" enterprises into successful, thriving businesses.

A business incubator is an economic development tool designed to accelerate the growth and success of entrepreneurial companies through an array of business support, resources and services. Thus, an incubator's main goal is to graduate successful financially sound firms.

There are two principles that distinguish effective business incubation:

1. By maximizing the success of emerging companies, incubators have positive impacts on the surrounding community's economic health.
2. The incubator itself is a model of a sustainable, efficient business operation.

In 1996, there were nearly 600 business incubators in North America. They have added more than 19,000 companies and more than 245,000 jobs to the economy. Some examples of successful U.S. incubators and a short description of their industry are included in the next section.

The reasons for the success of these incubators are as diverse as the incubators themselves. The common denominator is the gross number of businesses each incubator graduates, and the success

rate of those companies, i.e. the number that continue to grow and thrive after their graduation.

Among the factors that contribute to the success of incubators is the variety of “free” services offered to growing businesses. This includes shared services, access to financial and professional assistance, and specific services that focus on the incubator-specific industry. Incubator services identified in the 1996 National Business Incubation Association (NBIA) survey include:

- ☐ space rental
- ☐ general management advice
- ☐ business planning and implementation
- ☐ basic office services (reception, typing, word processing)
- ☐ assistance in financing
- ☐ marketing assistance
- ☐ financial and accounting help
- ☐ technology consulting
- ☐ legal and intellectual property assistance
- ☐ other services, e.g., export, bid, graphic arts, conflict assistance, access to loading docks, forklifts, heavy equipment, laboratories, campus resources and libraries, and shipping services.

Incubators are also successful and effective in economic development because of their unique structure and flexibility (Campbell, 1989):

- low cost development and operation—funding from government and/or foundation grants to cover start-up costs, donated materials/supplies and facilities, and a large volunteer work force.
- quality management—professional assistance and guidance to incubator firms, flexible policies, support, and camaraderie with other tenants.
- impact on local economic development—incubators are

usually part of a larger strategy or organization such as an industrial park, job training and placement programs, and technology transfer programs.

### ***How do business incubators work ?***

In addition to assisting new businesses, incubators are designed to nurture start-up firms in their most crucial years. They provide business owners with opportunities to develop ideas, skills, and businesses in a collegial environment that promotes interaction among entrepreneurs.

### ***Who pays for them?***

Incubators support much of their operational costs by revenue generated from rents collected from tenants. According to the 1996 NBIA survey of all incubators in North America, other sources of revenue include: subsidies, project-specific grants, royalty and equity income, service fees, misc. income, training & seminar fees.

### ***How are they supported?***

Both public and private resources—typically chambers of commerce, government, and small business associations—are utilized to support incubators. These entities offer consulting services, business management advice, and a host of other value-added services.

### ***What are the incentives for businesses to locate in an incubator?***

A major consideration for participating in an incubator is the low facility rental costs. With free or discounted business support services, an incubator is quite attractive to new businesses. According to NBIA, incubators provide raw space, access to financing and capital, as well as specific elements such as synergy and partnerships, business coaching, resource to professionals, workshops and seminars, and shared equipment.

### ***What type of industries have been incubated?***

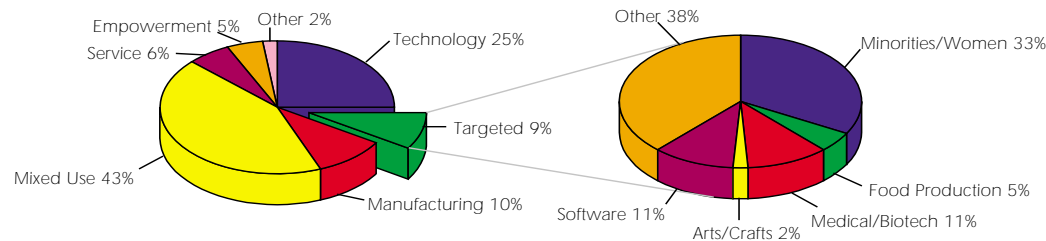
To date, business incubators have been oriented towards a

variety of different industries, including high technology, services, and biotechnology. Other types of industries serviced by incubators include light manufacturing, multimedia and arts, advanced materials, food production, wood products, fashion, catering, distribution, not-for-profit, and handmade craft production, distribution, and sales.

Specific businesses are as diverse as each community. For example, the Cambridge, Massachusetts craft vendors market their handmade goods locally at Porter Square, while HandMade America® in North Carolina works to develop local Appalachia arts and crafts and stimulate local economies with sale of their products.

Generally three main types of incubators exist:

- *Technopoles*—part of an integrated project involving educational and/or research institutions, and a range of interests that promote regional growth;
- *Sector Specific*—utilizes local resources to develop new businesses in specific sectors promoting local growth;



Source: NBIA Tenth Anniversary Survey. ILGARD, 1995.  
NBIA website: <http://nbia.org>

- *General Incubator*—caters to a wide range of businesses with no specialization.

In Hawai'i, business incubators are part of the State's economic development master plan. Emerging in the 1980s as an economic concept with then-Governor George Ariyoshi, business incubation grew into reality. The State spent \$10 million to build the Manoa

Innovation Center, a project of the State's High Technology Development Corporation that opened its doors in 1983.

Governor Cayetano continued the State's commitment to business development and economic revitalization and initiated an advisory group—HI-TECH Hawai'i: Governor's Partnership for Action—whose mandate is to focus on high tech incubator development. HI-TECH Hawai'i includes members from the government, the university, and the business sector who share the common vision of securing the State's role as the high-tech center of the Pacific. This group promotes technology-based development activities such as entrepreneurship in E-commerce (electronic business transactions using the World Wide Web to promote Hawaiian products and services); lifelong learning projects; incubation projects; wellness centers; health tourism; telemedicine; and health information technology.

There are currently three major business incubators in Hawai'i: **Manoa Innovation Center (MIC)**

Since its opening in 1983, MIC had serviced 61 companies: 22 graduates, 13 failures and a business success rate of 77 percent. Types of companies represented include multimedia, internet and web page development, biotechnology, software development, imaging/remote sensing, observatory optical instrument, geographic information systems (GIS), ocean services.

As the only high technology center in the State, MIC is linked to business and organizations, hospitals, health providers, and the University of Hawai'i system on all major islands of the Hawaiian chain.

**Mau'i Research & Technology Center**

This incubator is an extension of the MIC but is designed to serve the needs of Maui. Maui's unique blend of public and private partnerships allow it to engage in a variety of joint ventures. In 1997 its occupant companies employed more than 45 professionals with posted annual sales of \$2.3 million.

### **Moloka'i Community Innovation Center**

With recent funding from a federal economic development grant, the Center will initially operate a toll-free call center to provide tourism information about the islands.

## **Incubators from Across the U.S.**

### **Center for Enterprise and Economic Development (Caldwell, ID)**

Has been working with the Idaho-Oregon interstate development plan since 1984 to develop the region economically and to link itself to 12 counties, each with satellite incubators. This center incubates businesses involved in fabrication, computer consulting, light manufacturing, retail distribution, and light processing of products such as soy and fruit.

### **The Colorado Innovation Foundation (Golden, CO)**

Named Business Incubator of the year in 1991, Colorado's first incubator opened in 1985 and has since graduated over 40 businesses, produced 600 new jobs, and \$35 million in annual payroll. It incubates high technology, research & development, light manufacturing, and service businesses.

### **Women's Technology Cluster (San Francisco, CA)**

When it first opened as an incubator in late 1998, the Cluster housed two dozen women-owned software, Internet and networking companies. With an initial grant of \$175,000 and assistance from the chamber of commerce, retired Cisco Systems millionaire Catherine Muther underwrote her proposal to incubate good ideas into profitable businesses. Muther requires each entrepreneur to pledge a percent of its future stock to the incubator project so it can continue to support female entrepreneurs in the future.

### **Decatur Industry and Technology Center (Decatur, IL)**

The city of Decatur secured a grant from the U.S. Economic Development Administration to renovate a vacant facility that

had been donated to the city. The facility was renovated to house 41 tenants and opened as a business incubator in 1986 with the goal of creating economic development and diversity. It is now self-sufficient with rental fees and service income covering the operating costs.

### **Quest Center for Entrepreneurs (Hutchinson, KS)**

A private nonprofit facility established in 1987 to create jobs and economic diversity. Quest operates as a quasi-public facility governed by a corporate board whose members are drawn from government and local businesses. The building can accommodate 26 light manufacturing, and service businesses that generate about half of its operating income from rent and service fees paid. It also receives an annual allocation from the city and county governments for the remaining operating costs.

### **Batavia Industrial Center (Batavia, NY)**

This is the oldest incubator in operation: it opened in 1959 and has since produced 600 graduates. Its primary sponsor is a for-profit firm. It incubates industries in light manufacturing, not-for-profit business, retail operations, high technology, wholesale/distributing, mail order, sales and marketing, and commercial fine arts.

### **Enterprise Growth Center (Newark, NJ)**

This center is home to 30 minority-owned businesses. Since its inception in 1988, it has received more than \$10 million in grants from agencies such as the State of New Jersey Economic Development Authority, and the U.S. Department of Health and Human Services. It incubates high technology, research & development, light manufacturing, and service businesses.

### **West Philadelphia Enterprise Center (Philadelphia, PA)**

This center opened in 1989 with the primary goal of servicing women and minority-owned enterprises. It started with a \$1 million dollar grant from the Department of Commerce's Economic Development Administration. It houses 21 tenants and

services another ten affiliates. Its client base includes high technology, research & development, wholesale/distributing, sales/marketing and service.

## Incubating Small Businesses

Nationally more than 20 percent of jobs are in the goods production industry. In Hawai'i, goods production amounts to only eight percent of the total job count. Hawai'i's job opportunities are mostly in the service industry: the 1995 statistics show that 90.6 percent of our State's total population were engaged in service activities, as compared to the national level of 77.0 percent (DBEDT).

The 1998 Federal Bureau of Labor Statistics' Occupational Outlook Handbook forecasts declining activities in the manufacturing sector, and predicts that employment in the service-producing industries will increase faster than average, with a growth rate near 30 percent. They projected that a majority (70 percent) of the growth within this industry will be in the field of business, health, and education services.

This projection, combined with the fact Hawai'i is the third fastest aging state in the country and that to date there are no existing incubators that focus specifically upon seniors, suggests that Hawai'i is in an advantageous position for developing senior industries in the coming decades. Based on our review of the demographic trends associated with aging, we find that the following opportunities should be explored and developed in Hawai'i.

### HEALTH AND WELLNESS Products

*Includes herbal product development or biomedical health product research and development.*

Americans, more than ever, are turning to alternative therapies

as the benefits of nutritional supplements, vitamins, minerals, and herbs are acknowledged in leading medical journals. More than 60 million Americans use nutraceutical products as a way to enhance their health and well-being. Nature Made®, a leading nutritional supplement company, reports that consumers spent more than \$12 billion on natural supplements in 1998, and projects sales to grow annually at more than ten percent.

Herbs and herbal remedies have a long tradition in the Pacific Islands. Many have been used since pre-contact days. Two well-known Pacific plants are currently gaining recognition in mainstream health care:

- **Kava**, or awa, is a natural herb from the root of the *Piper Methysticum* species of pepper. Considered a relatively new-comer in the U.S. health arena, kava has been accepted in the European market as an herb with natural calming properties. For the millions who ingested ginkgo biloba to sharpen their memory or St. John's Wort to treat depression, kava is poised as the next cure for anxiety.
- The **noni** plant is well known for various remedies. The flower, fruit, and juices work for kidney and bladder disorders, cuts, and constipation.

In the biomedical field are two noteworthy discoveries:

- **Taxol**, a compound originally found in the Pacific Yew tree, has been successfully used to treat breast and ovarian cancers.
- **Laulimalide** has been identified as having potential cancer killing properties. It comes from a tropical marine sponge and has the potential to be a better cancer treatment than Taxol.

### NEW TOURISM MARKET NICHES: HEALTH, CULTURAL, EDUCATION

*Includes health and wellness centers or spas; health tourism; telemedicine; and health information technology.*

National and international hospitality corporations are starting to focus on health tourism and day spas as the next market niche. Locally on the Hilton Hawaiian Village's plan is the creation of

guest rooms that serve as high-tech interactive units and a recreation facility that offers wellness spas at world-class standards. The wellness focus will compliment medical facilities, therapeutic services, and a combined Eastern/Western medical approach to wellness.

Cultural tourism will offer a diversity of authentic experiences for visitors in atmospheres which promote genuine sharing and exchange of cultural ideas and traditions. Some exciting community-based models are being proposed by various groups, notably within the Wai'anae Coast community. At the Wai'anae Cultural Center, currently in the planning stage, visitors will be encouraged to be more than passive observers and paying customers. They will have the opportunity to have hands-on experience with all facets of the Hawaiian arts. Visitors will get acquainted with people "whose lives are colored by their art and whose art colors the lives of anyone who comes to know their work."

Edu-tourism fosters partnerships among a diversity of institutions, organizations and localities. This activity can promote learning or training sites for entrepreneurial development, retired business ownership, lifelong learning, and teaching or training individuals in local arts and crafts.

Due to our society's longevity, many older persons have longer retirement years and find themselves with more leisure time. Universities and colleges across the country are catering to this new market by offering a broad array of academic programs, cultural offerings, and community service initiatives. Just a decade ago, fewer than 50 colleges had academic programs designed for retirees. In 1999, it is estimated that 300 colleges will have such programs addressing the interests and needs of this population. Ronald Manheimer, director of the Center for Creative Retirement at the University of North Carolina at Asheville, projects that these programs will gain permanence as more baby boomers reach retirement age (Snodgrass, 1999).

## LIFELONG LEARNING

To remain productive, workers need access to education and training and/or retraining. The 21st century economy requires skills such as computer literacy and an understanding information technologies.

Also, it no longer can be assumed that workers will have long tenure with one employer nor in one industry. To keep pace with the rapidly changing technical demands and updated with new skills, workers need to be life long learners.

## *What is needed to start a Small Business Incubator in Hawai'i ?*

- ✓ **A physical location**, preferably a large warehouse-like building that can be renovated into appropriate spaces.
- ✓ **Capital investment** to support the start up cost of new businesses and to staff the site with administrative personnel to keep it running until tenant rents and other sources of revenues begin to sustain operating costs.
- ✓ **Entrepreneurs with business ideas**—enterprising men and women who have the vision, courage and desire to bring to fruition their business dreams and ideas.
- ✓ **Technical assistance and support** from the academic and the business communities would be valuable to new businesses.
- ✓ **A network** of sympathetic business leaders to serve as mentors and coaches.
- ✓ **Support from local and federal government programs** to assist in the long-term economic development and revitalization goals.
- ✓ **Grant money** to assist seniors in business development and training programs.
- ✓ **Partnerships** with local business associations and incubators, as well as affiliation with NBIA.

## *A Prototype Incubator*

The Wai'anae Coast region may be a suitable location for a

prototype incubator of senior industries. Wai‘anae community leaders are concerned about the future of their citizenry, and want to develop a comprehensive and integrated plan for community economic development, community building, local governance and control, and cultural and historic preservation. The fact that there is a growing interest in cultural and historic preservation among visitors will enhance the success of a demonstration incubator focusing on the heritage of the Wai‘anae community.

The cohesiveness of the community in conducting its affairs has been demonstrated. For the last two summers, various diverse community groups worked together to stage a cultural festival that encompassed the whole coast. Their success demonstrated their capability and willingness to collaborate for the good of the community.

Other factors that will contribute to the success of a prototype incubator in the Wai‘anae Coast include:

- ❖ **Facility**—suitable sites have been identified and preliminary discussions have commenced with each of the interested parties. Due to the current economic situation that has resulted in many vacant commercial and noncommercial spaces, it is highly likely that a very favorable agreement can be negotiated.
- ❖ **Funding**—various proposals have been submitted to support sustainable economic development in the region. Indications from the funding agencies and/or foundations thus far seem quite positive. Additionally, the community has secured a three-year grant from the Hitachi Foundation for the development of community-based cultural tourism, which can dovetail quite nicely with the incubator concept.
- ❖ **Technical assistance and support**—a group of public (UHM departments, State agencies), private (Bank of Hawai‘i) and nonprofit agencies (Queen Lili‘uokalani Children’s Center, Hawai‘i Community Services Council, Legal Aid Society, Honolulu Community Action Program) have collaborated on

various projects in the past. They are committed to continue their partnerships for community-based economic development of the Wai‘anae Coast community.

### ***Potential Sites***

Due to the current economic situation resulted in many vacant commercial and non-commercial spaces in Wai‘anae:

#### **A. Pu‘ukahea Conference Center**

It is a fourteen acre site with a number of buildings including bungalows, an empty school building, and the historic Wai‘anae plantation manager’s home, which in 1978 was placed in the Hawai‘i Register of Historic Places.

#### **B. Makaha Resort**

Previously known as the Sheraton Makaha Resort, it has been closed for three years. It is currently owned by All Nippon Airlines who has leased out the property to two management groups: one in charge of the golf club and restaurant, and another responsible for the sleeping and meeting rooms.

#### **C. Wai‘anae Mall**

As a testament to the economic hard times that has befallen upon the State, and especially the Wai‘anae Coast, the Mall has numerous vacant spaces. Currently an artist cooperative is located in the Mall. The cooperative was able to negotiate a favorable lease due to the Mall’s interest in helping the community.

#### **D. The former Dowsett Hotel Grounds**

The site of the first hotel in Wai‘anae, this hotel opened in 1895 following the increase in visitors on the O‘ahu railway servicing the Wai‘anae Sugar Plantation. This beachfront property is owned by the City and County of Honolulu. It is currently being used as a lifeguard office and storage area.



## Next Steps

Clearly there are opportunities for developing new industries in Wai'anae. Recently there have been a number of community based efforts to articulate needs and assets within the Wai'anae Coast community. The development of a small business incubator should include collaboration between residents, local businesses, entrepreneurs, and government.

## Conclusion

Primary responsibility for designing and implementing economic development strategies for the next decade rests with government, community and business leaders, working in a collaborative fashion. There is a recognition that not all communities in Hawai'i can, nor would want to, grow through tourism. Placing heavy reliance on external—national or international—corporations also has its drawbacks. Exploring new, “out of the box,” options to support and sustain local business is at the core of incubator development. Planning for the future, and planning for the “aging revolution” will ensure a high quality of life for all of Hawai'i's residents.

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